

fee provided for in this section has been collected, the amount of such fee shall be refunded.

[27 F.R. 10931, Nov. 9, 1962]

§ 19.79 Closed loans.

Except as hereinafter provided when a bank loan is closed, associations may collect a closed loan fee in an amount which, when added to the association application fee already collected, will equal but not exceed 1 percent of the amount of the bank loan closed.

§ 19.80 Additional and refunding loans.

Where, upon the basis of an application in which there is offered as security property which is mortgaged in whole

or in part to a bank, an additional loan is closed and the association currently endorses only the additional loan, the association may collect a closed loan fee which, when added to the association application fee already collected, will not exceed 1 percent of the amount of the additional loan. If the outstanding land bank loan or loans and the additional loan are written as one loan, and the association currently endorses for the full amount, the association may collect a closed loan fee which, when added to the association application fee already collected, will not exceed 1 percent of the full amount of the loan closed.

[27 F.R. 10931, Nov. 9, 1962]

SUBCHAPTER C—[RESERVED]

SUBCHAPTER D—FEDERAL INTERMEDIATE CREDIT BANKS AND PRODUCTION CREDIT ASSOCIATIONS

PART 40—FEDERAL INTERMEDIATE CREDIT BANKS

Subpart A—General Provisions	
Sec.	
40.101	Management.
40.102	Supervision.
40.111	Capital stock; participation certificates.
40.111-1	Class A stock.
40.111-2	Retirement of class A stock.
40.111-3	Class B stock.
40.111-4	Purchase of class B stock by production credit association.
40.111-5	Equalization of class B stock owned by production credit associations.
40.111-6	Participation certificates.
40.112-1	Retirements of class B stock, participation certificates and allocated legal reserve; general.
40.112-2	Same; institutions in liquidation.
40.112-3	Same; institutions in default.
40.113-1	Transfers of class B stock, participation certificates and legal reserve allocations; class B stock; general.
40.113-2	Same; disposition of class B stock and legal reserve allocations in merger or consolidation of associations.
40.113-3	Same; participation certificates.
40.113-4	Same; legal reserve allocations.
40.113-5	Same; preservation of statutory lien.
40.114	Surrender of certificates; issuance of new certificates.
40.115	Lost, destroyed, or stolen stock or participation certificates.

Sec.	
40.147	Lost, stolen, destroyed, or defaced collateral trust debentures.
40.148	Restrictive endorsements of bearer securities.
40.151	Annual application of earnings.
40.152	Absorption of net losses.
40.153-1	Surplus—reserved.
40.153-2	Legal reserve account.
40.153-21	Same; distribution.
40.153-22	Same; absorption of losses.
40.153-23	Same; disposition in the event of merger or consolidation of a production credit association or other financing institution.
40.153-24	Same; disposition on liquidation of credit bank.
40.154	Patronage refunds; general.
40.154-1	Same; if there is class A stock outstanding at the end of the fiscal year.
40.154-2	Same; if there is no class A stock outstanding at the end of the fiscal year.
40.172	Charging of fees or commissions unauthorized.

Subpart B—Loans and Discounts

40.201	Lending powers.
40.201-1	Same; terms denoting different classes of borrowing and rediscounting institutions.
40.201-2	Same; Federal credit unions.
40.202	General rediscount agreement.
40-203	Qualifications of other financing institutions.
40.203-1	Same; character of business.
40.203-2	Same; incorporation and capital structure.

Sec.
 40.203-3 Same; compliance with statutes.
 40.203-4 Same; affiliated with other concerns.
 40.203-5 Same; examinations, financial statements, reports, etc.
 40.211 Limitations upon amount of credit; ratio of total liabilities to unimpaired capital and surplus.
 40.212 Maximum ratios permitted.
 40.212-1 Same; production credit associations.
 40.212-2 Same; other financing institutions.
 40.212-3 Same; banking institutions.
 40.212-4 Same; credit unions.
 40.213 Computation of debt-to-capital ratios.
 40.221 Credit standards.
 40.222 Loan purposes.
 40.223 Maturities.
 40.224 Interest rates.
 40.225 Fees and other charges.
 40.226 Notes of farming corporations.
 40.226-1 Same; production credit associations.
 40.226-2 Same; other financing institutions.
 40.227 Notes given to merchants not eligible.
 40.231 Direct loans to production credit associations.
 40.231-1 Same; secured loans.
 40.231-2 Same; unsecured loans.
 40.231-3 Same; form of direct loan obligation.
 40.232 Direct loans or advances to other financing institutions.
 40.232-1 Same; classes of obligations approved as collateral.
 40.232-2 Same; purpose of direct loans or advances.
 40.242 General collateral; other financing institutions.
 40.251 Amounts of individual obligations requiring approval.
 40.251-1 Same; production credit associations.
 40.251-2 Same; other financing institutions.
 40.261 Interest and discount rates; Federal intermediate credit bank.
 40.261-1 Same; action by board of directors.
 40.261-3 Same; application of rates.
 40.261-4 Same; discount (discounting interest, or collecting in advance).
 40.261-5 Same; interest on delinquent notes under discount.
 40.262 Interest rates charged notemakers by financing institutions.
 40.262-1 Same; loan made before reduction in interest rate.
 40.262-2 Same; higher rate after maturity.
 40.262-4 Same; only on sums actually advanced and for time sums outstanding.

Sec.
 40.273-1 Credit to other financing institutions in special circumstances; partial discount procedure.
 40.282 Suspension of right to borrow and rediscount.
 40.282-1 Same; operations during suspension.
 40.283-2 Insolvency; other financing institutions.

AUTHORITY: The provisions of this Part 40 issued under sec. 209, 42 Stat. 1459, as amended; 12 U.S.C. 1101.

NOTE: That part of each section number which follows the decimal is the same as the section number of the corresponding provision in the Manual for Federal Intermediate Credit Banks.

Subpart A—General Provisions

§ 40.101 Management.

Each Federal intermediate credit bank operates under a board of directors which consists of the seven members of the district Farm Credit board (12 U.S.C. 640b) who are also, ex officio, directors of the Federal land bank and the bank for cooperatives of the district (12 U.S.C. 1022).

[27 F.R. 12803, Dec. 28, 1962]

§ 40.102 Supervision.

The Governor of the Farm Credit Administration, under the direction and control of the Federal Farm Credit Board, has the responsibility for supervision of the Federal intermediate credit banks and production credit associations. (12 U.S.C. 636d.) By order of the Governor, the exercise of this authority has been delegated to the Deputy Governor and Director of Short-Term Credit Service. Unless otherwise indicated, all matters pertaining to these banks and associations requiring attention or action by the Farm Credit Administration are to be referred to the office of the Director of Short-Term Credit Service.

[27 F.R. 12803, Dec. 28, 1962]

§ 40.111 Capital stock; participation certificates.

(a) Each Federal intermediate credit bank is authorized to issue two classes of capital stock. Class A stock, preferred as to assets in the event of liquidation, may be issued only to the Governor of the Farm Credit Administration on behalf of the United States and represents the investment of the United States in such bank. Class B stock may be issued to and held by production credit associations only.

(b) Other financing institutions dealing with a credit bank may not acquire capital stock in the bank but will receive participation certificates in payment of patronage refunds due them out of net earnings of the bank and in distribution of allocations of legal reserve when not paid in cash.

(c) All capital stock and participation certificates shall have a designated issue date, which shall determine its order of retirement. An additional series designation may be used if approved by the board of directors.

[30 F.R. 16191, Dec. 29, 1965]

§ 40.111-1 Class A stock.

Class A stock shall have a par value of \$100 per share, shall be issued to the Governor of the Farm Credit Administration in the form prescribed therefor and shall be delivered to the Farm Credit Administration.

[30 F.R. 16191, Dec. 29, 1965]

§ 40.111-2 Retirement of class A stock.

At the end of each fiscal year each bank shall determine the amount of class A stock which shall be retired. Whenever the total of the capital stock, participation certificates, surplus and reserves of the bank is more than one-eighth of the highest month-end balance of debentures and other obligations issued by the bank, outstanding during the immediately preceding 5 years, the minimum amount of class A stock to be retired shall be the total amount of class B stock and participation certificates issued for that year. The term "preceding 5 years" shall include the fiscal year just ended. Class A stock may be retired in fractional shares, in multiples of \$5.00. Upon retirement of a portion of the class A stock represented by any such certificate, the amount of such retirement shall be endorsed upon the certificate by the Farm Credit Administration.

[30 F.R. 16191, Dec. 29, 1965]

§ 40.111-3 Class B stock.

(a) Class B stock shall have a par value of \$5.00 per share. Class B stock certificates shall be issued in a form prescribed by the board of directors of the bank, subject to the approval of the Farm Credit Administration. No fractional shares shall be issued.

(b) In the discretion of the bank, class B stock certificates need not be furnished

unless a request therefor is made by the production credit association concerned. In the event a certificate is not issued, an "Advice of Class B Stock Issued," in form approved by the Farm Credit Administration, should be furnished to the association.

[30 F.R. 16191, Dec. 29, 1965]

§ 40.111-4 Purchase of class B stock by production credit association.

(a) When the earnings of the bank are inadequate to meet its capital needs, and when feasible to do so with due regard for the circumstances of the associations, the board of directors of the bank may, by resolution, authorize the bank, with the prior approval of FCA, to require production credit associations of the district to subscribe for such additional capital as may be needed by the bank during the next several years. The amount determined shall be allotted, to the nearest full share, among the associations so that the total of all stock owned, including the additional amount to be subscribed for, will be as nearly as practicable in the same proportion to the total amount of class B stock already owned and to be subscribed for by all associations of the district as each association's average indebtedness to the bank during the immediately preceding 3 fiscal years is of the average indebtedness of all associations to the bank during such period. The "average indebtedness" may be computed on the basis of either average daily balance, or average of beginning and ending monthly balances of such indebtedness for the 3-year period. Such subscriptions shall be subject to call and payment therefor shall be made at such times and in such amounts, all as may be determined by the bank.

(b) When making such allotments the bank may transfer, retire or reissue outstanding class B stock among the associations as may be necessary to establish the proportion indicated in the preceding paragraph. Stock that is retired or transferred for this purpose shall be the oldest stock held by the association. The bank shall pay the association for all stock so retired or transferred and shall collect therefor from any association to which such stock is transferred or reissued, at the fair book value thereof not to exceed par.

[30 F.R. 16191, Dec. 29, 1965]

§ 40.111-5 Equalization of class B stock owned by production credit associations.

Whenever the relative amounts of class B stock of a bank owned by the production credit associations of the district differ substantially from the proportion provided for in § 40.111-4 and additional subscriptions of class B stock through which such proportion could be reestablished are not contemplated, the board of directors of the bank may direct that such proportion be reestablished, subject to the prior approval of the Farm Credit Administration. In carrying out its purpose the bank may direct, either separately or in combination, such transfers, retirements, and reissuance of outstanding class B stock among the associations as will reestablish the aforesaid proportion as nearly as may be practicable. Stock that is retired or transferred for this purpose shall be the oldest stock held by the association. The bank shall pay the association for all stock so retired or transferred and shall collect therefor from any association to which such stock is transferred or reissued, at the fair book value thereof not to exceed par.

[30 F.R. 16192, Dec. 29, 1965]

§ 40.111-6 Participation certificates.

Participation certificates issued to other financing institutions shall be in multiples of \$5.00 and shall be in form prescribed by the board of directors of the bank, subject to the approval of the Farm Credit Administration. Ordinarily, participation certificates will be issued and delivered to the owners thereof; however, upon request of the owner an "Advice in Lieu of Participation Certificate," in form approved by the Farm Credit Administration, may be furnished.

[30 F.R. 16192, Dec. 29, 1965]

§ 40.112-1 Retirements of class B stock, participation certificates and allocated legal reserve; general.

After all class A stock has been retired, and under policies established by the Farm Credit Administration, the bank may retire class B stock and participation certificates at par or face amount without preference and in such order that the oldest shares of stock and participation certificates outstanding at any time shall be retired first (12 U.S.C. 1061 (a) (2)). The amount of class B stock

owned by any active production credit association shall not be less than the original subscription made by the association pursuant to the Farm Credit Act of 1956, unless a different amount is approved by the Farm Credit Administration.

[30 F.R. 16192, Dec. 29, 1965]

§ 40.112-2 Same; institutions in liquidation.

In case of liquidation or dissolution of a production credit association or other financing institution, the class B stock, participation certificates, and allocated legal reserve of the bank owned by such association or other institution may be retired if approved by the board of directors of the bank at the fair book value thereof, not exceeding par, face, or stated amount, as the case may be (12 U.S.C. 1061(a)(2)). A financing institution holding such participation certificates and legal reserve allocations will be deemed to be in "liquidation or dissolution" if it is going out of business, liquidating its assets for the distribution of the proceeds to those entitled thereto, and taking appropriate steps to terminate its corporate existence in accordance with applicable State laws. Merely paying its indebtedness to the credit bank and suspending the making of loans will not qualify a corporation for retirement of its participation certificates and legal reserve allocations.

[30 F.R. 16192, Dec. 29, 1965]

§ 40.112-3 Same; institutions in default.

In the event of default by the holder of class B stock, participation certificates or legal reserve allocations, the bank may retire and cancel all or any part of its holdings in total or partial liquidation of the debt of the holder to the bank; the legal reserve allocations, most recent years first, should be retired ahead of class B stock or participation certificates.

[30 F.R. 16192, Dec. 29, 1965]

§ 40.113-1 Transfers of class B stock, participation certificates and legal reserve allocations; class B stock—general.

Class B stock of a credit bank may be transferred to another production credit association, with the approval of the issuing bank (12 U.S.C. 1061(a)(2)).

[30 F.R. 16192, Dec. 29, 1965]

§ 40.113-2 Same; disposition of class B stock and legal reserve allocations in merger or consolidation of associations.

In the event of the merger or consolidation of two or more production credit associations, class B stock and legal reserve allocations held by the associations involved shall be disposed of in the manner provided in the agreement of consolidation or merger.

[30 F.R. 16192, Dec. 29, 1965]

§ 40.113-3 Same; participation certificates.

Participation certificates may be transferred only on the books of the issuing bank, and with its approval.

[30 F.R. 16192, Dec. 29, 1965]

§ 40.113-4 Same; legal reserve allocations.

Legal reserve allocations may be transferred only with the approval of the bank.

[30 F.R. 16192, Dec. 29, 1965]

§ 40.113-5 Same; preservation of statutory lien.

All changes in ownership of class B stock, participation certificates, and legal reserve allocations shall be subject to the statutory lien of the bank for any indebtedness of the transferor to the issuing bank (12 U.S.C. 1061(b), 1072 (a)).

[30 F.R. 16192, Dec. 29, 1965]

§ 40.114 Surrender of certificates; issuance of new certificates.

Upon retirement of any class B stock or participating interest evidenced by an outstanding certificate, the certificate involved shall be surrendered to the bank for cancellation. In case of partial retirement a new certificate shall be issued for the balance not retired, which shall bear the same issue date and series designation, if any, as the canceled certificate. In the event of a transfer of class B stock resulting from mergers or consolidations, or transfer of participation certificates from one holder to another, any new class B stock or participation certificates issued shall bear the same issue dates and series designations, if any, as the original certificates for which new certificates are substituted. In the event of a transfer or reissuance of class B stock to equalize the ownership of class B stock of the bank, as provided in

§§ 40.111-4 and 40.111-5, the issue date of such stock shall be the date of equalization.

[30 F.R. 16192, Dec. 29, 1965]

§ 40.115 Lost, destroyed, or stolen stock or participation certificates.

Whenever a class B stock certificate or a participation certificate which has been issued by the bank is lost, stolen, destroyed, or so mutilated as to impair its value, the bank may issue in lieu thereof a new certificate which shall bear the same issue date and series designation, if any, upon compliance with the following requirements:

(a) The owner shall furnish an affidavit of loss, acceptable to the bank setting forth: (1) The issue date or series, number of shares, and any other information required to establish its identity; (2) a detailed statement of the circumstances surrounding the loss, theft, destruction, mutilation or defacement of the certificate; and (3) a statement that the affidavit was made for the purpose of obtaining a new certificate. Since class B stock and participation certificates may not be transferred except with the approval of the bank, a bond of indemnity ordinarily will not be required.

(b) If a class B stock certificate or participation certificate which was reported lost, stolen or destroyed is recovered by the owner, he should notify the bank immediately; and if a new certificate was issued, the owner shall promptly return the old certificate to the bank.

[27 F.R. 12804, Dec. 28, 1962]

§ 40.147 Lost, stolen, destroyed, or defaced collateral trust debentures.

(a) *Authorization for relief.* Whenever a debenture issued by an individual Federal intermediate credit bank, or a consolidated debenture, is lost, stolen, destroyed or so mutilated or defaced as to impair its value to the owner, the Farm Credit Administration may authorize the issuance of a new debenture in lieu thereof upon the owner's compliance with the following requirements:

(b) *Application.* In the event of the loss, theft, destruction, mutilation, or defacement of a debenture, issued by a Federal intermediate credit bank, or a consolidated debenture, the owner or his authorized representative, to protect his interest, should immediately file an application with the Farm Credit Admin-

istration for the issuance of another debenture in lieu thereof. Such application must be filed within a reasonable time after the loss, theft, destruction, mutilation, or defacement is discovered.

(c) *Affidavit of loss.* The owner of the debenture which has been lost, stolen, mutilated, or destroyed, or his authorized representative, shall furnish to the Farm Credit Administration his affidavit, duly acknowledged before a notary public or other officer authorized by law to administer oaths, setting forth:

(1) That he is the lawful owner (or authorized representative of the owner) of such debenture, and that he is legally entitled to its possession;

(2) A complete identification of such debenture, including serial number, date of issue, face amount, date of maturity, and interest rate;

(3) A detailed statement of the circumstances surrounding the loss, theft, destruction, mutilation, or defacement of such debenture;

(4) A statement that the affidavit is made for the purpose of obtaining a new debenture, and an undertaking that, should the original debenture come into possession or control of the deponent, he will immediately surrender it to the Farm Credit Administration.

(d) *Bond of indemnity.* (1) The owner of the lost, stolen, or destroyed debenture or his authorized representative, shall also furnish to the Farm Credit Administration a bond of indemnity in a penal amount equal to the sum of the principal and interest to maturity of the said debenture, plus 10 percent, with corporate surety satisfactory to the Farm Credit Administration, with conditions to indemnify and save harmless the Farm Credit Administration and any and all Federal intermediate credit banks and officers, employees, and representatives thereof, of and from all liability, loss, claims, or demands, arising in any manner by reason or on account of the debenture for which the issuance of another is requested.

(2) The owner of a mutilated or defaced debenture, or his authorized representative, shall, before another debenture is issued in lieu thereof, surrender such debenture or as much thereof as remains, to the Farm Credit Administration, and shall, if required of him, also furnish a bond of indemnity in a penal

sum satisfactory to the Farm Credit Administration, with corporate surety and conditions as above stated.

(3) A bond of indemnity which is otherwise satisfactory will be accepted if the corporation which is surety thereon holds a certificate from the Secretary of the Treasury as being acceptable on surety bonds. A list of such corporations (Section of Surety Bonds Form 356) may be obtained from the United States Treasury.

(e) *Additional evidence of loss.* The owner of a lost, stolen, mutilated, or destroyed debenture, or his authorized representative, shall also furnish such other and further evidence relating to the loss, theft, destruction, mutilation, or defacement of the debenture for which a new debenture is requested as may be required by the Farm Credit Administration in any specific case.

(f) *Recovery of debenture reported lost, stolen, or destroyed.* If a debenture reported lost, stolen, or destroyed is recovered by the owner, or his authorized representative, prior to the issuance of a new debenture in lieu thereof, the Farm Credit Administration should be notified immediately, whereupon the application for the issuance of the new debenture will be canceled, and any bond and affidavits relative thereto will be returned to the owner, or his authorized representative. If the original debenture is recovered by the owner, or his authorized representative, after a new debenture in lieu thereof has been issued, the said original shall be returned to the Farm Credit Administration for cancellation.

(g) *Immaterial mutilation or defacement.* Where a mutilation or defacement of a debenture is so slight that the debenture may be identified fully, and the missing fragments could not by any possibility form the basis of a claim against the Farm Credit Administration or any Federal intermediate credit bank, the Farm Credit Administration, upon application therefor, and the surrender of the defaced or mutilated debenture, may authorize the issuance of a new debenture in lieu thereof without requiring an affidavit or indemnity bond, or such debenture may be accepted and paid, at maturity, as if no mutilation or defacement had occurred.

[27 F.R. 12804, Dec. 28, 1962]

§ 40.148 Restrictive endorsements of bearer securities.

When consolidated debentures issued by the 12 Federal intermediate credit banks are being presented to Federal Reserve Banks or Branches, or to the Treasurer of the United States, by or through banks (including Federal intermediate credit banks) for redemption, such debentures may be restrictively endorsed. The restrictive endorsement shall be placed thereon in substantially the same manner and with the same effects as prescribed in United States Treasury Department regulations, now or hereafter in force, governing like transactions in United States bonds; and consolidated debentures issued by the 12 Federal intermediate credit banks so endorsed shall be prepared for shipment and shipped in the manner prescribed in such regulations for United States bonds. (See 31 CFR 328.1-328.6.)

[27 F.R. 12304, Dec. 28, 1962]

§ 40.151 Annual application of earnings.

Pursuant to section 206 of the Farm Loan Act, as amended (12 U.S.C. 1072), the net earnings of each bank at the end of each fiscal year of the bank, after the payment of operating expenses (including provision for reasonable valuation reserves and losses in excess of reserves), shall be applied as follows:

(a) To restore the amount of impairment, if any, of capital stock and participation certificates, as determined by the board of directors;

(b) To restore the amount of impairment, if any, of the surplus account, as determined by the board of directors;

(c) After restoring impairments, if any, of capital stock, participation certificates, and surplus, as provided herein, 25 percent of the remaining net earnings shall be used to create and maintain a reserve account (designated "Legal Reserve" account). The amount added to such account shall be allocated to the users of the bank in accordance with § 40.153-2;

(d) If class A stock has been outstanding during any part of the fiscal year, to pay to the United States a franchise tax equal to 25 percent of the remaining net earnings; provided, that the amount of such tax shall not exceed a rate of return on such Government capital calculated at a rate equal to the computed average annual rate of interest on all

public issues of public debt obligations of the United States issued during the fiscal year of the U.S. Treasury ending next before such tax is due, as certified to the Farm Credit Administration by the Secretary of the Treasury;

(e) When a bank has no class A stock outstanding, it may pay noncumulative dividends on Class B stock and participation certificates in an amount not to exceed 5 percent in any year, when authorized by its board of directors;

(f) After the foregoing requirements have been met (including the payment of dividends when applicable) the net earnings remaining shall be distributed as patronage refunds to production credit associations and other financing institutions, as provided in § 40.154.

[30 F.R. 16192, Dec. 29, 1965]

§ 40.152 Absorption of net losses.

In the event a net loss is sustained in any year, it shall be absorbed in the following manner, and in the order stated:

(a) By charges to the reserve account;

(b) By charges to the surplus account, other than that transferred from the production credit corporation;

(c) By charges to the surplus transferred from the production credit corporation;

(d) The impairment of class B stock and participation certificates; and

(e) The impairment of class A stock.

[30 F.R. 16193, Dec. 29, 1965]

§ 40.153-1 Surplus-reserved.

The surplus established by the bank on January 1, 1957, as provided in section 103 of the Farm Credit Act of 1956, shall be maintained as a part of the permanent capital of the bank. Should the surplus become impaired through losses, it shall be restored out of future earnings as provided in § 40.151.

[30 F.R. 16193, Dec. 29, 1965]

§ 40.153-2 Legal reserve account.

The legal reserve account of the bank shall be allocated on a patronage basis to production credit associations and other financing institutions. Allocations on a patronage basis means that such allocations shall be recorded on the books of the bank for the credit of such users (or their successors in interest) in the proportion that the amount of interest earned by the bank on loans to and discounts for each user bears to the total interest on loans to and discounts for

all such users outstanding during the fiscal year. The users shall be given appropriate notice of such allocations in a form approved by the Farm Credit Administration. Allocations may be transferred only on the books of the bank and with its approval. Allocations shall be subject to a first lien as additional collateral for any indebtedness of the holder thereof to the bank, and in any case where such indebtedness is in default may be applied thereon.

[30 F.R. 16193, Dec. 29, 1965]

§ 40.153-21 Same; distribution.

Whenever the amount in the legal reserve account exceeds 25 percent of the capital stock and participation certificates outstanding at the end of any fiscal year, such excess may be distributed, in full or in part, if the board of directors of the bank so determines, oldest allocations first, in class B stock and participation certificates issued as of the date of the allocations and, whenever the bank has no class A stock outstanding, also in money.

[30 F.R. 16193, Dec. 29, 1965]

§ 40.153-22 Same; absorption of losses.

When net losses are charged to the legal reserve account, as provided in § 40.152, such losses shall reduce the amounts allocated to production credit associations and other financing institutions, most recent allocations first. All allocations for each year shall be fully absorbed before any losses are charged against allocations for an earlier year. Charges that are less than the full amount of all allocations issued for a specified year shall be on a pro rata basis.

[30 F.R. 16193, Dec. 29, 1965]

§ 40.153-23 Same; disposition in the event of merger or consolidation of a production credit association or other financing institution.

In the event of merger or consolidation of two or more production credit associations, the reserve account allocations of the respective associations shall be disposed of in the manner provided in the agreement of merger or consolidation. In the event of a merger or consolidation of another financing institution, the reserve account allocations of such institution shall be transferred to its successors in interest.

[30 F.R. 16193, Dec. 29, 1965]

§ 40.153-24 Same; disposition on liquidation of credit bank.

In the event of a liquidation or dissolution of a credit bank, the remaining reserve account allocations shall be paid to the owners of record or their successors in interest.

[30 F.R. 16193, Dec. 29, 1965]

§ 40.154 Patronage refunds; general.

Patronage refunds may be paid to production credit associations and other financing institutions only. The amount payable to each such institution shall be in the proportion that the amount of interest earned by the bank on loans to and discounts for that institution bears to the total interest on loans to and discounts for all production credit associations and other financing institutions outstanding during the fiscal year, and shall be paid as provided in §§ 40.154-1 and 40.154-2.

[30 F.R. 16193, Dec. 29, 1965]

§ 40.154-1 Same; if there is class A stock outstanding at the end of the fiscal year.

Payments of patronage refunds shall be made in class B stock to production credit associations and in participation certificates to other financing institutions borrowing from or rediscounting with the bank during the fiscal year.

[30 F.R. 16193, Dec. 29, 1965]

§ 40.154-2 Same; if there is no class A stock outstanding at the end of the fiscal year.

Payments of patronage refunds may be made in cash, or in class B stock to production credit associations and in participation certificates to other financing institutions as provided in § 40.154-1, as may be authorized by the board of directors.

[30 F.R. 16193, Dec. 29, 1965]

§ 40.172 Charging of fees or commissions unauthorized.

No Federal intermediate credit bank may charge or receive from any production credit association or other financing institution "any fee, commission, bonus, gift, or other consideration" not specifically authorized by law (12 U.S.C. 1129).

[27 F.R. 12805, Dec. 28, 1962]

Subpart B—Loans and Discounts

§ 40.201 Lending powers.

In general, the lending powers of the Federal intermediate credit banks are

set forth in section 202(a) of the Federal Farm Loan Act, as amended (12 U.S.C. 1031), as follows:

The Federal intermediate credit banks, when chartered and established, shall have power, subject solely to the restrictions, limitations, and conditions contained in this Act or as may be prescribed by the Farm Credit Administration not inconsistent with the provisions of this Act—

(1) to discount for, or purchase from, any production credit association organized under the Farm Credit Act of 1933, as amended, with its endorsement, any note, draft, or other such obligation presented by such association; and to make loans and advances to any such association secured by such collateral as may be approved by the Governor of the Farm Credit Administration or without collateral to the extent authorized under rules and regulations prescribed by the Farm Credit Administration;

(2) to discount for, or purchase from, any national bank, State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union, and any association of agricultural producers engaged in the making of loans to farmers and ranchers, with its endorsement, any note, draft, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose, including the breeding, raising, fattening, or marketing of livestock; and to make loans and advances to any such financing institution secured by such collateral as may be approved by the Governor of the Farm Credit Administration: *Provided*, That no such loan or advance shall be made upon the security of collateral other than notes or other such obligations of farmers and ranchers eligible for discount or purchase under the provisions of this section, unless such loan or advance is made to enable the financing institution to make or carry loans for any agricultural purpose; and

(3) to make loans to and discount paper for any other Federal intermediate credit bank, any Federal land bank, or any bank for cooperatives organized under the Farm Credit Act of 1933, as amended, all upon terms and at rates of interest or discount approved by the Farm Credit Administration. [30 F.R. 16193, Dec. 29, 1965]

§ 40.201-1 Same; terms denoting different classes of borrowing and rediscounting institutions.

Except as indicated otherwise, the term "financing institutions" as used in this Part shall be understood to include both production credit associations and all institutions of the types listed in paragraph (2) of section 202(a) of the Act, quoted in § 40.201. The term "other financing institutions" includes only those

listed in such paragraph (2). The term "banks of the Farm Credit System" includes only those institutions listed in paragraph (3).

[27 F.R. 12805, Dec. 28, 1962]

§ 40.201-2 Same; Federal credit unions.

Following is an excerpt from the Federal Credit Union Act of June 26, 1934, as amended (12 U.S.C. 1757):

POWERS

Sec. 7. A Federal credit union shall have succession in its corporate name during its existence and shall have power—* * *

(9) to borrow, in accordance with such rules and regulations as may be prescribed by the Director, from any source, in an aggregate amount not exceeding 50 per centum of its paid-in and unimpaired capital and surplus: *Provided*, That any Federal credit union may discount with or sell to any Federal intermediate credit bank any eligible obligations up to the amount of its paid-in and unimpaired capital.

[30 F.R. 16193, Dec. 29, 1965]

§ 40.202 General rediscount agreement.

As a condition precedent to making loans to or discounting paper for any production credit association or other financing institution the bank will require the association or corporation desiring such credit to execute a general rediscount, loan, and pledge agreement in form approved by the Farm Credit Administration.

[27 F.R. 12805, Dec. 28, 1962]

§ 40.203 Qualifications of other financing institutions.

Except that banking institutions and credit unions are not subject to the requirement in § 40.203-1 relating to the character of business in which engaged, all other financing institutions must meet the requirements in §§ 40.203-1—40.203-5 in order to obtain credit from a Federal intermediate credit bank.

[27 F.R. 12806, Dec. 28, 1962]

§ 40.203-1 Same; character of business.

It must be engaged in the business of extending short- and intermediate-term credit to farmers and ranchers for agricultural purposes, including the breeding, raising, fattening or marketing of livestock. A concern engaged in the business of manufacturing, merchandising, real estate brokerage, real estate loans, etc., will not be classified as an institution eligible to obtain credit from a credit bank merely because it has the power to make loans to farmers and

stockmen and to borrow money. On the other hand, the fact that a corporation has powers not related to agricultural credit, or receives income from other sources, will not of itself render it ineligible. Such institutions should be carefully investigated and each case decided on its merits.

[27 F.R. 12806, Dec. 28, 1962]

§ 40.203-2 Same; incorporation and capital structure.

It must be incorporated; have a capital structure commensurate with the volume of business it expects to handle; and have prospective income sufficient to cover operating costs and establish reserves for possible losses.

[27 F.R. 12806, Dec. 28, 1962]

§ 40.203-3 Same; compliance with statutes.

It must comply with State laws applicable to it. Violations of State laws will be cause for revocation by the bank of the borrowing and rediscounting rights of any institution which does not promptly rectify such conditions upon notice from the bank. Special attention should be given to the institution's articles of incorporation and bylaws; capital stock and other securities transactions; and, in the case of foreign corporations, evidence will be required that it has complied with the laws of each State in which it operates.

[27 F.R. 12806, Dec. 28, 1962]

§ 40.203-4 Same; affiliated with other concerns.

(a) In the case of any financing institution which is affiliated with a bank, cooperative association, or other concern (through stock ownership, management, interlocking directorates, or otherwise) the bank will consider the possible effects of such relationship upon the operations and credit policies of the applicant institution. It is important that the bank keep informed concerning the management, financial condition, and operations of such affiliated concern, in order to assure itself that the practices and policies of the affiliate will not jeopardize the interests of the bank.

(b) A financing institution which is a subsidiary of or affiliated with a farmers cooperative association, and is otherwise eligible to borrow from and to rediscount with a Federal intermediate credit bank, may qualify to rediscount, with its endorsement, or borrow on the security of

notes of farmers and stockmen (as distinguished from notes of cooperative associations) evidencing loans to finance the cost of supplies, equipment or services obtained from such affiliated cooperative association, if the board of directors of the bank finds that (1) an additional source of credit is needed to facilitate financing of such transactions; and (2) the primary benefits of such credit will inure to the borrowing farmers and stockmen.

[30 F.R. 12194, Dec. 29, 1965]

§ 40.203-5 Same; examinations, financial statements, reports, etc.

As a condition precedent to making loans to or discounting paper for any financing institution the bank will require such institution to agree to furnish the bank, the Farm Credit Administration, or any Farm Credit examiner, at any time upon call, full and current information regarding its financial condition and operations, including a detailed financial statement in such form as may be prescribed by the bank or by the Farm Credit Administration; and its agreement to submit, at its own expense, to periodic examinations by examiners of the bank, by national bank examiners, or by Farm Credit examiners; provided, however, that any bank, trust company, or savings institution operating under the supervision of State or national authorities, in lieu of such agreement may submit its authorization to such supervising authority, in writing, to furnish the bank or the Farm Credit Administration upon request, any report of condition, report of examination, or other confidential information in the possession of such supervising authority. In connection with the initial application for credit submitted by an agricultural credit corporation, livestock loan company, or similar institution, the bank should make a careful and thorough examination; provided, however, that in the case of a newly organized institution having only liquid assets (such as cash and bonds) and no liabilities of consequence, the bank may waive such initial examination.

[27 F.R. 12806, Dec. 28, 1962]

§ 40.211 Limitations upon amount of credit; ratio of total liabilities to unimpaired capital and surplus.

Within the limitations of the Act, it is the responsibility of the bank to determine the amount of credit that

may be granted safely to any institution. Sound credit policy requires that careful consideration be given to the character and ability of the management of each institution; to its actual unimpaired capital and surplus; to the manner in which such capital is invested; to the nature and extent of its other liabilities; as well as to the quality of the paper offered and to the amount of general collateral pledged with the bank. Since these factors are subject to change from time to time, it is important that they be reviewed by the bank at frequent intervals.

[27 F.R. 12806, Dec. 28, 1962]

§ 40.212 Maximum ratios permitted.

The limitations set out in §§ 40.212-1—40.212-4 are maximum ratios and may not be exceeded in any event.

[27 F.R. 12806, Dec. 28, 1962]

§ 40.212-1 Same; production credit associations.

No credit may be granted to any production credit association if the amount involved, added to its other liabilities, will exceed 10 times its paid-in and unimpaired capital and surplus.

[27 F.R. 12806, Dec. 28, 1962]

§ 40.212-2 Same; other financing institutions.

No credit may be granted to any other financing institution of the classes listed in paragraph 2 of section 202(a) of the Act, quoted in § 40.201 (other than banks and credit unions) if the amount involved, added to its other liabilities, exceeds the liabilities which the institution may incur under the laws governing its operations or, in any event, exceeds 10 times its paid-in and unimpaired capital and surplus.

[27 F.R. 12806, Dec. 28, 1962]

§ 40.212-3 Same; banking institutions.

No credit may be granted to any banking institution if the amount involved, added to its other liabilities (other than bona fide deposit liabilities), exceeds the amount of such liability permitted under the laws of the jurisdiction creating such bank, or exceeds twice its paid-in and unimpaired capital and surplus.

A corporation engaged in a banking business and operating under the banking laws of a State, but having the powers of an agricultural credit corporation, livestock loan company, or simi-

lar financing institution, must be limited to the amount of credit which may be granted to a banking institution as provided in this section.

[27 F.R. 12806, Dec. 28, 1962]

§ 40.212-4 Same; credit unions.

No credit may be granted to a credit union if the amount thereof, added to its other liabilities, exceeds the amount of such liability permitted under the laws of the jurisdiction creating such credit union, or exceeds the amount of its paid-in and unimpaired capital.

[27 F.R. 12806, Dec. 28, 1962]

§ 40.213 Computation of debt-to-capital ratios.

In computing the debt-to-capital ratio of an institution, the bank will include all liabilities (other than bona fide deposit liabilities in the case of banks) whether owing to the credit bank or to others. The unimpaired capital and surplus will include the following:

(a) That portion of the institution's authorized and subscribed capital which has actually been paid in and (except in the case of production credit associations) for which stock certificates are outstanding in the names of bona fide stockholders; and

(b) Its paid-in surplus (if any) and surplus created out of net earnings or savings specifically set aside to augment its effective capital; less

(c) Any losses (whether fully realized or determined to be in prospect) which are not provided for or offset by reserves and undivided profits or otherwise.

[27 F.R. 12806, Dec. 28, 1962]

§ 40.221 Credit standards.

Paper offered to a credit bank by a financing institution, for discount or as collateral security for a loan, should be of such character as to assure liquidation of the obligation within a reasonable time, consistent with sound lending and agricultural practices. The integrity and financial condition of the notemaker, the collateral security offered, the productive capacity of the notemaker's farming and livestock operation, the adequacy and practicability of the plan of repayment, and other credit factors, when considered together, should afford reasonable assurance that under ordinary circumstances the income of the notemaker will be sufficient to repay the loan and discharge his other obligations.

[27 F.R. 12806, Dec. 28, 1962]

§ 40.222 Loan purposes.

(a) Loans discounted for or purchased from a production credit association shall have been made to qualified farmers or ranchers for general agricultural purposes, and other requirements of the borrowers including the needs of their families. (See § 50.101 of this chapter.)

(b) The proceeds of loans discounted for or purchased from other financing institutions shall have been advanced to farmers or ranchers and have been used in the first instance for an agricultural purpose, including the breeding, raising, fattening, or marketing of livestock (12 U.S.C. 1031(2)).

(c) In determining whether the purpose of a loan offered for discount is "agricultural" the bank will apply the term on a practical and constructive basis rather than in a purely technical sense. Eligibility should be judged in line with the usually accepted requirements of farm and ranch operations, including the support and maintenance of the farm or ranch family.

[30 F.R. 16194, Dec. 29, 1965]

§ 40.223 Maturities.

(a) Notes evidencing direct loans to financing institutions, and notes or other obligations discounted or accepted as collateral for loans by an intermediate credit bank usually will be drawn with maturities coinciding with the normal marketing seasons for the crops or livestock from which liquidation is expected, ordinarily not more than 12 months. Intermediate-term loans for capital purposes, made in accordance with policies and procedures prescribed by the bank with maturities not to exceed 7 years, may be discounted or accepted as collateral for loans.

(b) Investment securities and other obligations of the classes described in §§ 40.231 and 40.232, even though having more than 7 years to run to maturity, may be accepted as collateral security for direct loans to production credit associations and other financing institutions.

[27 F.R. 12807, Dec. 23, 1962]

§ 40.224 Interest rates.

To be eligible for discount or as collateral for a loan to a financing institution, the rate of interest or discount charged the maker of a note offered to the bank shall not exceed the rate permitted by regulations of the Farm Credit

Administration. (See §§ 40.262—40.262-2, 40.262-4.)

[27 F.R. 12807, Dec. 28, 1962]

§ 40.225 Fees and other charges.

No paper shall be eligible for discount, or as collateral for a loan by the credit bank, if the offering financing institution imposes any fee or other charge, aside from interest, at a rate higher than that approved by the bank. If, in the case of other financing institutions, the total amount of interest and other charges to the notemaker exceeds an amount calculated at the maximum interest rate allowed by the laws of the State where the note was executed, careful consideration should be given to the facts and to the exact nature of such charges in the light of usury and other applicable laws.

[27 F.R. 12807, Dec. 28, 1962]

§ 40.226 Notes of farming corporations.

Notes of a corporation may be discounted for, purchased from, or accepted as a basis for a loan to, any eligible financing institution if they meet the requirements of §§ 40.226-1 or 40.226-2 applicable to the financing institution concerned.

[30 F.R. 16194, Dec. 29, 1965]

§ 40.226-1 Same; production credit associations.

To be eligible for discount for a production credit association, notes of a corporation must meet the requirements of §§ 50.102 and 50.103 of this chapter.

[30 F.R. 16194, Dec. 29, 1965]

§ 40.226-2 Same; other financing institutions.

Notes of a corporation may be discounted for a financing institution other than a production credit association if the borrowing corporation is engaged in actual farming operations or livestock production and meets the following requirements:

(a) Either (1) at least 75 percent in value and number of shares of its capital stock must be owned by the individuals personally actually conducting the farming or livestock operations of the corporation; or (2) the major portion of the assets of the corporation must consist of property actually devoted to farming or livestock production and at least half of its gross income must be derived from such operations; and

(b) Either the holder or holders of at least a majority of its outstanding shares of voting stock or, with the consent of the Federal intermediate credit bank, a principal stockholder or stockholders must (1) endorse, or sign as comakers, all notes evidencing such loans; or (2) execute continuing guaranties of all indebtedness of such corporation to the payee lending institution. Requirement (2) may be met by two or more stockholders each executing a guaranty for a specified percentage of the indebtedness, with the aggregate of such guaranties affording personal liability for 100 percent of the indebtedness. If such personal liability of stockholders of the borrowing corporation cannot be obtained by reason of ownership of its capital stock by another corporation, the stockholder liability requirement may be met by like endorsement or guaranty on the part of an individual stockholder or stockholders of such parent or affiliated corporation.

[30 F.R. 16194, Dec. 29, 1965]

§ 40.227 Notes given to merchants not eligible.

Notes given by farmers and stockmen to dealers, merchants or others for the purchase of livestock, machinery, farm supplies, fertilizer, services, etc., ordinarily are not eligible for discount by or as collateral for loans from a credit bank. Where the proceeds of such notes are used primarily for the benefit of a merchant or dealer, rather than a farmer (e.g., to finance a merchant's credit sales) the purpose is commercial, or mercantile, not agricultural.

[27 F.R. 12807, Dec. 29, 1962]

§ 40.231 Direct loans to production credit associations.

The bank may make direct loans to production credit associations on an unsecured basis or secured by such collateral as may be approved by the Governor of the Farm Credit Administration. The total of all direct loans (both secured and unsecured) to any production credit association shall not at any time exceed the total of its capital and surplus accounts less the total of (a) the amount of class B stock of the bank owned by the association and (b) the legal reserve of the bank allocated to the association.

[30 F.R. 16194, Dec. 29, 1965]

§ 40.231-1 Same; secured loans.

Whenever, in the discretion of the bank, collateral for a direct loan is required, the following security is approved for that purpose:

(a) Investments approved under §§ 50.201 and 50.202 of this chapter;

(b) Loans eligible for discount that may be used as security pursuant to the trust procedure authorized for financing production credit associations in special circumstances;

(c) Loans ineligible for discount, but which may be used as security pursuant to the bills payable and partial discount procedures authorized for financing production credit associations in special circumstances; and

(d) Any other unencumbered assets, excluding class B stock and allocations of the legal reserve account of the bank.

[30 F.R. 16194, Dec. 29, 1965]

§ 40.231-2 Same; unsecured loans.

Any part of the maximum direct loan that is not required to be secured pursuant to § 40.231-1 may, at the discretion of the bank, be made on an unsecured basis. The amount loaned on an unsecured basis shall be determined by the bank for each association (within the limitations for total secured and unsecured loans) and shall be consistent with sound financial and credit practices.

[30 F.R. 16194, Dec. 29, 1965]

§ 40.231-3 Same; form of direct loan obligation.

Direct loans and advances to a production credit association may be evidenced by a promissory note, or by a loan agreement in form approved by the Farm Credit Administration.

[30 F.R. 16194, Dec. 29, 1965]

§ 40.232 Direct loans or advances to other financing institutions.

As provided in paragraph (2) of section 202(a) of the Act, quoted in § 40.201, a Federal intermediate credit bank is authorized to make loans and advances to any financing institution (other than a production credit association), secured by such collateral as may be approved by the Governor of the Farm Credit Administration; provided, that no such loan or advance shall be made upon the security of collateral other than notes or other such obligations of farmers and ranchers eligible for discount or purchase under the provisions of the Federal Farm Loan Act, as amended, unless such

loan or advance is made to enable the financing institution to make or carry loans to farmers and ranchers for agricultural purposes. (See § 40.222.) In all cases the amount of collateral required shall be not less than the principal amount of the indebtedness thereby secured.

[27 F.R. 12807, Dec. 28, 1962]

§ 40.232-1 Same; classes of obligations approved as collateral.

The following classes of obligations are approved as collateral for direct loans and advances to other financing institutions:

(a) Obligations of farmers and stockmen which are eligible for discount or purchase under the provisions of existing laws and regulations;

(b) Bonds and other direct obligations of the United States;

(c) Consolidated Federal farm loan bonds and consolidated debentures of the banks for cooperatives; and

(d) Soil and water conservation loans and farm ownership loans made under programs administered by the Farmers Home Administration, when payment thereof is guaranteed by the United States.

[27 F.R. 12807, Dec. 28, 1962]

§ 40.232-2 Same; purpose of direct loans or advances.

In making loans or advances to any other financing institution on the security of collateral other than that described in § 40.232-1(a), the bank will assure itself that the proceeds of such loans or advances will be used to enable the financing institution to make or carry loans to farmers and ranchers for agricultural purposes. In making examinations of such institutions, the bank's examiners should include such reviews or test checks as may be needed to satisfy the bank that this provision is complied with.

[30 F.R. 16194, Dec. 29, 1965]

§ 40.242 General collateral; other financing institutions.

Other financing institutions (except commercial banks) as a condition precedent to borrowing from or rediscounting with a credit bank shall pledge as general collateral to any and all obligations to the bank, cash, U.S. Government securities, consolidated Federal farm loan bonds, consolidated debentures of the banks for cooperatives, or other readily

marketable securities of high rating in an amount equal to a substantial portion of its capital. In the discretion of the bank, banking institutions also may be required (unless prohibited by law or by supervisory authority) to deposit acceptable general collateral.

[27 F.R. 12808, Dec. 28, 1962]

§ 40.251 Amounts of individual obligations requiring approval.

(a) An intermediate credit bank may not, except with the approval of the Farm Credit Administration, discount or make loans upon the security of obligations of any borrower whose indebtedness to the financing institution offering such paper to the bank exceeds the limitations prescribed herein.

(b) The term "obligations" as used in this section includes all paper upon which one borrower is liable, whether as maker, co-maker, endorser, or guarantor, and includes the total commitment in the case of new or repeat loans, and the unpaid balance, undisbursed commitment, and any proposed additional advance in the case of all other loans.

[27 F.R. 12808, Dec. 28, 1962]

§ 40.251-1 Same; production credit associations.

Any loan which has been approved by the Farm Credit Administration under the provisions of § 50.164, of this chapter may be discounted if acceptable to the bank.

[27 F.R. 12808, Dec. 28, 1962]

§ 40.251-2 Same; other financing institutions.

In addition to any limitations imposed by laws governing a financing institution, any obligation of a borrower accepted for discount or as collateral for a direct loan shall have the prior approval of the Farm Credit Administration when the total obligations of such borrower to the offering institution exceed \$50,000, or 50 percent of the paid-in and unimpaired capital and surplus of such institution, whichever is larger.

[29 F.R. 6517, May 20, 1964]

§ 40.261 Interest and discount rates; Federal intermediate credit bank.

The interest and discount rates of each Federal intermediate credit bank shall be established and applied in accordance with §§ 40.261-1, 40.261-3—40.261-5.

[27 F.R. 12808, Dec. 28, 1962]

§ 40.261-1 Same; action by board of directors.

Interest and discount rates shall be determined by the board of directors of the bank, subject to the approval of the Farm Credit Administration.

[27 F.R. 12808, Dec. 28, 1962]

§ 40.261-3 Same; application of rates.

Unless another procedure is approved by the Farm Credit Administration, the interest and discount rates of a credit bank will be applied in the following manner:

(a) Interest, or discount, is to be charged on each original note (or upon such amounts as may be advanced thereon) at the rate in effect at the time the funds are advanced by the bank.

(b) On any renewal note the bank will charge its established rate in effect at the time such renewal is taken into its accounts.

(c) Notes or agreements which extend the maturity dates of notes under discount, for a period not to exceed 90 days from the date the original obligation matured, may be carried at the same rate as that charged on the note which has matured or, in the discretion of the bank, at its loan and discount rate prevailing at the time the extension is accepted.

[27 F.R. 12808, Dec. 28, 1962]

§ 40.261-4 Same; discount (discounting interest, or collecting in advance).

The Federal intermediate credit banks will not collect interest in advance (deduct discount), except when the paper offered bears interest after maturity only.

[27 F.R. 12808, Dec. 28, 1962]

§ 40.261-5 Same; interest on delinquent notes under discount.

Should a note purchased or discounted by the bank be not paid promptly at maturity the bank may, in its discretion, collect the full rate of interest specified in the note for such time as the endorsing institution permits such note to remain past due with the bank.

[27 F.R. 12808, Dec. 28, 1962]

§ 40.262 Interest rates charged notemakers by financing institutions.

The rates of interest or discount charged farmers and stockmen on notes or other obligations that may be discounted for, or accepted as collateral for loans to financing institutions shall not

exceed by more than 4 percent per annum the interest and discount rate of the Federal intermediate credit bank in effect at the time the loan is made to the notemaker; provided, however, that in the event the interest and discount rate of the bank is less than 2 percent per annum, the rate of interest or discount charged may be equal to but not in excess of 6 percent per annum.

[27 F.R. 12808, Dec. 28, 1962]

§ 40.262-1 Same; loan made before reduction in interest rate.

A note offered to the bank after a reduction in its interest and discount rate, but representing a loan made by the financing institution prior to such change, may be accepted by the bank without adjustment of interest by the primary lender; provided, the interest rate borne by the note does not exceed the rate permitted by § 40.262 at the time the loan was made.

[27 F.R. 12808, Dec. 28, 1962]

§ 40.262-2 Same; higher rate after maturity.

A note bearing interest at one rate to maturity and a higher rate after maturity may be accepted by the bank even though such post-maturity rate may exceed the rate permitted by § 40.262: *Provided*, The bank assures itself that this privilege is not abused.

[27 F.R. 12808, Dec. 28, 1962]

§ 40.262-4 Same; only on sums actually advanced and for time sums outstanding.

Interest may be charged by a financing institution on paper discounted or held by the bank only on the sums actually advanced, for the time such sums are outstanding. The charging of interest or discount on the face amount of an obligation for the entire term of the loan when the full proceeds have not been advanced, renders the paper ineligible for discount. Likewise, failure, on the part of the financing institution to allow proper interest credit for repayments prior to maturity may be cause for suspension of the borrowing and rediscounting rights of such institution.

[27 F.R. 12808, Dec. 28, 1962]

§ 40.273-1 Credit to other financing institutions in special circumstances; partial discount procedure.

(a) When a financing institution other than a production credit association is in need of funds in excess of amounts that

can be made available through normal processes and if, for credit reasons, a bank is unwilling to discount or purchase a loan offered by such institution for its face amount, it may discount or purchase less than the full amount of the loan. In such transactions the financing institution shall be required to apply all repayments on the borrower's obligations first to pay the bank the amount discounted or purchased by it.

(b) In lieu of discounting or purchasing notes which are not acceptable at face value, a credit bank may accept such paper, at a reduced value, as collateral security to a direct loan to the borrowing institution under § 40.232.

[27 F.R. 12808, Dec. 28, 1962]

§ 40.282 Suspension of right to borrow and rediscount.

Should the capital and surplus of a financing institution dealing with a credit bank be reduced, or become impaired through losses (actual and prospective), to such extent that the ratio of its total liabilities to its unimpaired capital and surplus becomes unsatisfactory, or should the condition or the operations of a financing institution become otherwise unsatisfactory to the bank, its right to borrow and rediscount may be withdrawn or suspended by the bank until the unsatisfactory condition is corrected. In the event it is determined that the debt-to-capital ratio exceeds the legal limits prescribed in § 40.212, the right of such institution to borrow and rediscount shall be withdrawn or suspended forthwith, and shall remain so until necessary correction has been effected.

[27 F.R. 12808, Dec. 28, 1962]

§ 40.282-1 Same; operations during suspension.

During any period of suspension as herein provided, no new paper will be purchased from or discounted for the institution, and no further advances will be made to it pending correction, except to the extent necessary to cover commitments on paper held by the bank or to preserve the security and protect the interests of the bank in obligations held by it. Before making additional advances to any financing institution whose right to borrow or rediscount has been suspended because the ratio of its total liabilities to unimpaired capital and surplus equals or exceeds the maximum permitted under § 40.212, it will be neces-

sary for the bank to satisfy itself that the corporation will not violate any applicable law by assuming liability for such additional advances.

[27 F.R. 12809, Dec. 28, 1962]

§ 40.283-2 Insolvency; other financing institutions.

In the event a financing institution other than a production credit association becomes insolvent or is in process of liquidation, particularly if it fails to service its paper properly and where supervision or orderly liquidation will be facilitated by direct handling of the obligations of the notemakers, a credit bank may, with the consent of the Farm Credit Administration, take over such paper for orderly liquidation. Notes or other obligations pledged with the bank by a financing institution, either as collateral for a direct loan or as additional security for any and all indebtedness of the institution to the bank, also may be taken over and handled directly with the makers after title has been acquired in accordance with the provisions of applicable laws and the terms of the pledged agreements executed by the institution concerned. The bank's authority to handle such paper directly includes the authority to make additional advances, to grant renewals and extensions, and to take such other actions as may be needed to work out the problems involved. Direct liquidation of paper carried for a financing institution should be resorted to only in cases where other measures have failed and it is apparent that direct liquidation is the only practicable means available to the bank for protection of its interests.

[27 F.R. 12809, Dec. 28, 1962]

PART 50—PRODUCTION CREDIT ASSOCIATIONS

Subpart A—Loans to Members

ELIGIBILITY

Sec.	
50.101	General.
50.102	Corporation.
50.103	Stockholder endorsements.
50.104	Fiduciaries and representatives.
50.105	Receivers and trustees.
50.106	Territorial limitations.

LOAN PURPOSES

50.112	Determination of authority.
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SECURITY FOR LOANS

50.121	Secured and unsecured loans.
50.122	Acceptable security.